

## **When the Impossible is Possible**

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Having been engaged in lending for over a decade, one of the most common questions I hear sounds pretty much the same every time. The question is: what is needed in order to receive financing from the bank for business development or the implementation of a new project?

The answer is simple and complex at the same time, so let's figure it out. Certainly, there are golden rules for preparing a loan or investment project which are described in serious textbooks and include a well-grounded and well-calculated business plan, the experience of participants in the proposed area, successfully implemented projects, as well as own financing in the amount of 20-30% of the project budget. These rules do work and they are important of course. It would seem that what one needs to do is just hire smart guys who will help in preparing the entire documentation, hire experienced managers and go ahead - conquer new Mont Blancs and Everests of business. Then why is it difficult?

Each successful project, of course, has its own story; but there are also universal, fundamental points that are relevant for many, if not most. Here, we are definitely not talking about “standard” loans with 100% collateral, but about more complex and ambitious projects. Further on, I will mention some of these and will try to give several tips.

The main difficulty often lies in the fact that good and even great business ideas come from those who simply cannot meet the standard terms and conditions of bank lending. From my experience, I can say that this happens much more often than one might think. And it's not just about those computer geniuses, whose revolutionary ideas can only be evaluated and financed by business angels who are equally advanced.

Let's say, a company with experience and a good reputation has decided to launch a new line of extraordinary, but very promising food products. The market analysis and the comparison with peers promise excellent prospects. First, one needs to purchase equipment, modernise production, and prepare for entering new markets. However, the amount of collateral and free funds available is not sufficient to meet the terms and conditions of the bank.

At this point, a wall usually arises, which cannot be broken through with the help of any convincing evidence of future success and profits. Because in standard practice, a project that does not fall within the given framework just does not work. A loan officer can understand everything and wish success to the applicant, but the requirements and circumstances prevail.

Hence, the first and main advice is to search for a bank and a banker who is ready to be flexible and look at your business as broadly as possible. Financing of promising projects that “do not meet the standards” can not only be organised in the form of classical lending. In such cases, combinations can be used; for example, a loan plus an investment component or a mezzanine. This form of cooperation, which is sometimes called “smart financing”, often turns out to be more beneficial for all parties – both for

the bank and for the client. Another thing is that it requires much deeper involvement in the project and more thorough work on the part of all of the participants, including comprehensive analysis, presentation to the target group, the search for effective non-standard solutions, analysis and control of risks. Not all credit institutions are ready for this.

Here's another situation that has been encountered quite often recently. There is a company that is successful, efficient and modern. It was established in the 1990s or the 2000s. Sometime later, its shareholders attracted new management for their business who carried out successful reforms and brought the company into an excellent condition. Currently, the founders are planning to retire, and the top management of the enterprise is ready to buy out a controlling stake from them; however, they do not have enough funds for such a transaction, and it is almost impossible to obtain such under the usual credit scheme.

The problem has been solved through “smart financing”, which includes loans and a certain amount of investment. Such approach justifies itself and works very well in practice. We have already received a number of similar applications this year. Most of them have good potential and I hope that we will help to unleash it for many of our clients.

The second important tip is that you have to believe in your idea. As corny as it sounds, it is a completely practical and vital point. The opposite is also true: if you do not really believe in your idea, do not “live with it 100%”, and are not ready to fight for it to the end, then no one else will believe in it either, and certainly not a bank loan specialist.

Now we are negotiating with a young food production company from a neighbouring Baltic country, which is ready to launch a virtually new product on the market – absolutely natural, fully “green” and, at the same time, delicious. They want to export it to Great Britain, Japan, Germany and other promising markets. The quality that they have been able to achieve is really impressive – and this is against the background of many world analogues. The production cycle is a complete “chain” – from growing in the garden to packaging the processed end product.

When you communicate with them, you understand: the guys believe in their work, are fully into it and also know how to convince people of this. And what is most important, they do not just believe in it in an abstract way. They had calculated and planned everything, had made a pilot project, which confirmed their financial prerequisites, had studied sales markets and had even made a portrait of their end customer who would buy their goods at a store in, say, Tokyo or Liverpool.

Thus, the third tip: come to the bank with your project perfectly prepared and focused. Over the years of my career, I have been involved in negotiations with hundreds of entrepreneurs, and I am still amazed that many of them come to the most important first meeting without the required preparation and mood.

Believe me, it is during the first meeting that foundations are laid, which can solve a lot later, if not everything. If you cannot answer simple questions straight away, for example, about the staff you will need, about the target audience of your product or service, about the procedure of your sales and about your partners in this business, then

your interlocutor will most likely put a mental cross on your project at once. And, as experience shows, in most cases he will be right. On multiple occasions, I really found out later that if something seemed to be strange, incomprehensible or unviable at first impression, it was like this in reality.

Nobody is immune to mistakes. We, banking specialists, who deal with dozens of business cases every day, who are familiar with hundreds of business people, understand this as well as others. Still, mistakes that can be foreseen and avoided should not be made.

And finally, even if you have already been rejected somewhere, but still have reasons to believe in your business idea – do not stop, continue, and look for new solutions, as a journey of a thousand miles begins with a single step.